

# **CAPINFO** Capinfo Company Limited

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

3rd Quarterly Report **2002**

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## Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (The “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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*This report, for which the directors of Capinfo Company Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”) for the purpose of giving information with regard to Capinfo Company Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## Highlights

- Turnover rose by approximately 1.3 times over the same period in previous year.
- Net profit of approximately RMB7.4 million was recorded as against net loss of approximately RMB17 million in the corresponding period of last year.

## Financial Review

Capinfo Company Limited (“the Company”) and its subsidiaries (“the Group”) are pleased to announce the unaudited consolidated results of the Group for the nine months ended 30th September, 2002. For the period under review, the Group recorded a turnover of approximately RMB159 million, representing an increase of approximately 1.3 times as compared with the same period of last year, and a gross profit margin of 31%, as compared with 23% for the same period of last year. The Group has also turned from loss of approximately RMB17 million for the same period of last year to net profit of approximately RMB7.4 million for the period under review.

During the period, e-Government business was being developed rapidly, and turnover from such business amounted to about RMB113 million and accounted for about 71% of the Group’s turnover of this period. This was also the main reason why the Group attained such outstanding performance for this period.

The Group’s current ratio (total current assets over total current liabilities) increased from 2.1 at the end of 2001 to 3.1 at the end of this period. Gearing ratio (total debts over net assets) was maintained at a relatively low level of less than 3%. Both ratios reflected the sufficiency in the financial resources of the Group.

During the period, the Group had pledged RMB106 million time deposit to a bank in PRC for banking facilities amounting to RMB80 million. Such banking facilities would facilitate the implementation of the Group’s various projects and as at 30th September 2002, none of the banking facilities was utilized. As at the end of the period under review, bank loan of RMB5.5 million was secured by pledge of RMB6.2 million time deposit.

## Business Review

During the period under review, the Group's large scale e-Government information system operation and maintenance services have secured an increasing number of customers because of the rapid development in the market of the e-Government in the PRC. In addition to the expansion of the existing business, we would focus on the development of e-Government business in the PRC, enhancing the operation model for the development of e-Government in Beijing, upgrading the Group's status in the market of e-Government in the PRC. "Digital Cities" are being established to tap into a larger market. The Group relies on its success in e-Government, e-Commerce and Internet technology services, to develop various products and services in the name of "Leading Digital City Developer and Operator". The management would endeavour to improve the business strategies and organizational structure, while reducing operating costs and increasing efficiency, with a view to boost the performance of the principal business and capturing various business opportunities.

### *1. All businesses are growing with e-Government business taking the lead*

As one of the leading enterprises carrying out major e-Government projects in Beijing, the Group placed emphasis on maintaining and nurturing its good relation with its customers. During the period, large new orders were received from the existing customers, which, together with the previously secured contracts for the operation and maintenance of the Capital Public Information Platform, Medical Insurance Information Sub-system and Community Services Information Network System, had fully utilized the Group's design and development capabilities. Projects were being implemented smoothly. The Capital Public Information Platform has linked up most district and county governments and various commissions, offices and departments of the Beijing municipal government. The Medical Insurance Information Sub-system has a smooth operation since the launch of service and there has been a steady rise of registered users. The Group recently secured a project for the construction of Beijing community services call centers which is now in the testing stage. Moreover, the Group has developed a customized management software system and provided IT services in accordance with the requirement of community management in Beijing.

2. *Improve organizational structure and enhance operational efficiency*

In order to expedite the pace of development of “Citizen Card Project” and all the related projects undertaken by the Group under the “Agreement for the Planning of Beijing City Major Information Application Projects”, the Group has established the citizen card department to take over the business of the Beijing Citizen Card Company Limited, so that the Group could exercise more direct and effective management and control over the business of citizen card. The citizen card department would have close co-operation with other units which would result in a better use of the Group’s technical, information and administrative resources. The citizen card department will work closely with the social security department to extend the “Citizen Card” applications to the Medical Insurance Information Sub-system operated by the Group, which covered about 6 million participants in Beijing.

3. *Realigning resources and investing in new businesses*

To fully utilize the resources of Capital Public Information Platform, e-Government service customers and advanced technological research and development capability, the Group and Beijing State-owned Assets Management Corporation had entered into an agreement, pursuant to which, both parties will jointly contribute RMB10 million for the establishment of 北京首通萬維信息技術有限公司 which will engage in the provision of service of “Digital Beijing Information Kiosk”. The Group will hold 40% interest in the newly formed company. The company will, through the “Digital Beijing Information Kiosk”, use resources from “www.beijing.com.cn”, “www.beijing.gov.cn”, Capital Public Information Platform to provide the e-payment and other services and contents and build up the foundation for becoming a “Digital Olympic” e-Commerce infrastructure and services provider.

#### 4. *Research and development*

##### 1. *One-stop office core technology*

During the period, there was a breakthrough in the development of workflow engine software module. With efforts being made on the improvement in various aspects of the workflow control, exception handling and application tools of the module, the Group has successfully applied the module to the “Beijing e-Government Online Service Platform” and a number of other platforms. The module was also proved to be effective in the development of “Labor Employment Management Software Under One-stop Service” in Nanhai City, Guangdong. At the same time, the Group had succeeded in the research and development of eXtensible Markup Language (XML) based data exchange platform. This module is an integrated real time message service system. It acts as the backend server and desktop, providing real time message service including a number of Web management control station and message service core components. It can be easily integrated with other system by Application Programming Interface (API) and can provide various functions such as information publication, alert, planning and subscription. It can support the workflow engine software module and Geospatial Information System module and support the “Public Service Platform”.

##### 2. *Broadband access technology*

The Group had completed the proposal for the replacement of the middle ware of the second version of network management system, and proposed the solutions for the network management system and security system of the e-Government proprietary network. In addition, the product design of external Cable Modem was completed after testing and small production. Model communities in Beijing and Guangdong were operating smoothly.

3. *Multilingual intelligent information service network system*

“The Key Technology and Application Demonstration System Research on Multilingual Information Service System” was carried on smoothly. The system can be used in multilingual information kiosk and multilingual mobile terminals for Olympic Games in 2008.

5. *Future prospects*

With the rapid development of e-Government throughout the country, the Group will invest more in the provision of e-Government services. Software research and development capabilities will be further enhanced and related software will be developed based on the construction and operation experience for the mid to large-scale information systems. The Group also intends to cooperate with international software companies to develop the Group as an independent software supplier, with the ultimate aim of taking the leading position in the e-Government market in the PRC. At the same time, the Group intends to capture every opportunity arising from the Olympic Games by expanding new businesses.

# Independent Review Report to the Directors of Capinfo Company Limited

## 德勤·關黃陳方會計師行

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**Deloitte  
Touche  
Tohmatsu**

## Introduction

We have been instructed by the directors of the Company to review the quarterly financial report for the nine months ended 30th September, 2002 set out on pages 9 to 12.

## Directors' Responsibilities

The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the preparation of a quarterly financial report. The quarterly financial report is the responsibility of, and has been approved by, the directors.

## Review work performed

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" ("SAS 700") issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the quarterly financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the quarterly financial report.



## **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the quarterly financial report for the nine months ended 30th September, 2002.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statements for the period from 1st July, 2001 to 30th September, 2001 and for the period from 1st January, 2001 to 30th September, 2001 disclosed in the quarterly financial report have not been reviewed in accordance with SAS 700.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong, 8th November, 2002

## Condensed consolidated income statement

For the nine months ended 30th September, 2002

	Notes	(Unaudited)		(Unaudited)	
		Three months ended		Nine months ended	
		30th	30th	30th	30th
		September,	September,	September,	September,
		2002	2001	2002	2001
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	3	53,250	18,886	158,988	69,122
Cost of sales		(37,875)	(15,291)	(110,455)	(53,241)
Gross profit		15,375	3,595	48,533	15,881
Other revenue		4,155	3,135	6,797	4,078
Research and development costs		(3,822)	(4,456)	(14,074)	(15,407)
Marketing and promotional expenses		(2,294)	(1,637)	(6,194)	(4,780)
Administrative expenses		(10,291)	(7,437)	(24,516)	(16,947)
Profit (loss) from operations		3,123	(6,800)	10,546	(17,175)
Interest on bank borrowings wholly repayable within five years		(157)	(189)	(381)	(520)
Gain on disposal of interest in an associate		–	747	–	747
Share of losses of an associate		(127)	(185)	(127)	(771)
Profit (loss) before taxation		2,839	(6,427)	10,038	(17,719)
Taxation	4	(1,585)	–	(2,358)	–
Profit (loss) before minority interests		1,254	(6,427)	7,680	(17,719)
Minority interests		(252)	(479)	(283)	501
Net profit (loss) for the period		1,002	(6,906)	7,397	(17,218)
Earnings (loss) per share					
– Basic	5	0.03 cents	(0.31) cents	0.26 cents	(0.78) cents

## Notes to the Quarterly Financial Report

For the nine months ended 30th September, 2002

### 1. General

The Company was established in Beijing, the People's Republic of China (the "PRC") on 14th July, 2000 as a joint stock limited company. Following the consent from the China Securities Regulatory Commission on 31st October, 2001, the Company's overseas-listed foreign shares ("H shares") were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 21st December, 2001.

The Company's ultimate holding company is Beijing State-Owned Assets Management Corporation Limited, a state-owned enterprise, also established in the PRC.

### 2. Accounting Policies

The quarterly financial report has been prepared under the historical cost convention and the accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2001.

### 3. Turnover

Turnover represents the aggregate of the net amounts received and receivable from third parties in connection with the provision of e-Government technology services, e-Commerce technology services and internet services. In August, 2001, the business of internet service provision was discontinued. An analysis of the Group's turnover is as follows:

	Three months ended		Nine months ended	
	30.9.2002	30.9.2001	30.9.2002	30.9.2001
	RMB'000	RMB'000	RMB'000	RMB'000
Continuing operations				
– e-Government technology services	34,492	9,332	112,588	53,783
– e-Commerce technology services	18,758	6,397	46,400	8,704
	53,250	15,729	158,988	62,487
Discontinued operations				
– internet service	–	3,157	–	6,635
	53,250	18,886	158,988	69,122

#### 4. Taxation

The Company is recognised as a new-technology enterprise according to PRC tax regulations and is entitled to exemption from PRC income tax for the first three years of its operations and entitled to a 50% tax relief for the next three years commencing 2001. The charge for the period represents PRC income tax calculated at the rate of 7.5% pursuant to the relevant rules and regulations in the PRC.

There was no significant unprovided deferred taxation for the period.

#### 5. Earnings (Loss) Per Share

The calculation of the basic earnings (loss) per share is based on the following data:

	Three months ended		Nine months ended	
	30.9.2002	30.9.2001	30.9.2002	30.9.2001
Net profit (loss) for the period	<b>RMB1,002,000</b>	RMB(6,906,000)	<b>RMB7,397,000</b>	RMB(17,218,000)
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	<b>2,898,086,091</b>	2,193,997,000	<b>2,896,577,673</b>	2,193,997,000

No diluted earnings per share has been presented as the effect of the potential shares outstanding during the period was anti-dilutive. There were no potential dilutive shares in 2001.

## 6. Share Capital

	Number of shares		Registered, issued and fully paid RMB'000
	Domestic shares	H shares	
Ordinary shares of RMB0.10 each			
At 1st January, 2002	2,126,497,182	742,498,000	286,900
Exercise of over-allocation options	(2,909,091)	32,000,000	2,909
At 30th September, 2002	2,123,588,091	774,498,000	289,809

On 14th January, 2002, 29,090,909 H shares were issued at a price of HK\$0.48 per share pursuant to the exercise of over-allocation options which were granted to the placing underwriters on 17th December, 2001.

## 7. Reserves

	Share premium RMB'000	Deficit RMB'000	Total RMB'000
At 1st January, 2001	–	(4,368)	(4,368)
Net loss for the period	–	(17,218)	(17,218)
At 30th September, 2001	–	(21,586)	(21,586)
At 1st January, 2002	243,231	(14,301)	228,930
Premium arising on issue of shares	11,902	–	11,902
Expenses incurred in connection with the issue of shares	(1,054)	–	(1,054)
Net profit for the period	–	7,397	7,397
At 30th September, 2002	254,079	(6,904)	247,175

## Dividend

The Board of directors does not recommend the payment of interim dividend for the nine months ended 30th September, 2002 (2001: Nil).

## Directors' and Supervisors' Interests in Securities

As at 30th September, 2002, save as disclosed, none of the directors, supervisors, or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the Hong Kong Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (the "SDI Ordinance") or, as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

## Directors' and Supervisors' Rights to Acquire Shares or Debentures

Under the Company's pre-IPO share option plan, the directors and supervisors of the Company have personal interest in share options which had been granted to them on 6th December, 2001 to subscribe for H Shares in the Company at an exercise price of HK\$0.48 per H Share exercisable within a period of ten years from the date of grant subject to certain restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in

H Shares. No share option has been granted or exercised during the nine months ended 30th September, 2002. A summary of these share options outstanding is as follows:

<b>Name of director</b>	<b>Number of share options outstanding at 1.1.2002 and 30.9.2002</b>
Dr.Chen Xinxiang	1,309,750
Dr.Wang Xu	1,297,350
Zhang Yan	1,308,200
Dr.Wu Bo	1,261,700
Gao Fengqian	1,283,400
Li Ye	1,309,750
Zuo Feng	1,309,750
Fan Dazhi	1,244,650
Qi Qigong	1,244,650
Pan Jiaren	1,244,650
Liang Mei	1,244,650
Wong Ying Ho, Kennedy	1,241,550
Ng Kin Fai, Francis	1,241,550
	<hr/> <hr/> 16,541,600
<b>Name of supervisor</b>	
Zhang Zhenlong	1,264,800
Liu Jian	1,244,650
Cheng Huajun	1,286,500
	<hr/> <hr/> 3,795,950

Save as disclosed above, at no time during the period was the Company or its holding company or any of its fellow subsidiaries or subsidiaries a party to any arrangement to enable the directors and supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors and supervisors or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

## **Substantial Shareholders**

As at 30th September, 2002, according to the register maintained under Section 16(1) of the SDI Ordinance, Beijing State-owned Assets Management Corporation Limited (“BSAM”) owned 1,783,631,919 domestic shares in the Company which represents 61.55% of the issued share capital of the Company.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 30th September, 2002.

## **Purchase, Sale or Redemption of the Company’s Listed Securities**

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

## **Sponsor’s Interest**

Core Pacific-Yamaichi Capital Limited, the Company’s sponsor, confirms that it, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) did not have any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 30th September, 2002.

Pursuant to the sponsor agreement dated 17th December, 2001 entered into between the Company and Core Pacific-Yamaichi Capital Limited, Core Pacific-Yamaichi Capital Limited has received and will receive a fee for acting as the Company’s sponsor for the period from 21st December, 2001 to 31st December, 2003 or until the sponsor agreement is terminated upon the terms and conditions set out therein.



## Competing Interest

None of the directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes with the Company or may compete with the business of the Group.

## Corporate Governance

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the period of review.

An audit committee was established on 6th December, 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The two independent non-executive directors, Mr. Wong Ying Ho, Kennedy and Mr. Ng Kin Fai, Francis, have been appointed as members to the audit committee. Mr. Wong Ying Ho, Kennedy was appointed as the Chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

By order of the board  
**Capinfo Company Limited**  
**Dr. Chen Xinxiang**  
*Chairman*

The People's Republic of China, 8th November, 2002